

Audit Report



FUNDS USED FOR THE ARCTIC MILITARY
ENVIRONMENTAL COOPERATION PROGRAM

Report Number 98-076

February 17, 1998

Office of the Inspector General
Department of Defense

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Acronyms

AFCEE	Air Force Center for Environmental Excellence
AMEC	Arctic Military Environmental Cooperation
ESTCP	Environmental Security Technology Certification Program
MIPR	Military Interdepartmental Purchase Request

February 17, 1998

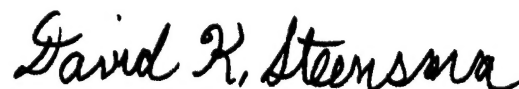
MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
AND TECHNOLOGY
DEPUTY UNDER SECRETARY OF DEFENSE
(ENVIRONMENTAL SECURITY)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Funds Used for the Arctic Military Environmental
Cooperation Program (Report No. 98-076)

We are providing this report for information and use. This audit was performed in response to a request by the Principal Assistant Deputy Under Secretary of Defense (Environmental Security) to determine whether \$1.2 million of funds for the Arctic Military Environmental Cooperation program were used properly.

Management comments on a draft of the report were considered in preparing this report. The Office of Deputy Under Secretary of Defense (Environmental Security), Air Force, and Navy comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Joseph P. Doyle, Audit Program Director, at (703) 604-9348 (DSN 664-9348) or Ms. Deborah L. Culp, Audit Project Manager, at (703) 604-9335 (DSN 664-9335). See Appendix B for the report distribution. The audit team members are listed inside the back cover.



David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-076
(Project No. 7CK-5037)

February 17, 1998

Funds Used for the Arctic Military Environmental Cooperation Program

Executive Summary

Introduction. The audit was requested by the Principal Assistant Deputy Under Secretary of Defense (Environmental Security) to determine whether \$1.2 million of funds for the Arctic Military Environmental Cooperation Program were used properly.

The Arctic Military Environmental Cooperation Program is a trilateral initiative between Norway, the Russian Federation, and the U.S. to generally refocus the Russian Defense Department environmental practices. A declaration was signed by all parties in September 1996. Total DoD program support of \$1.2 million came from FY 1995 Environmental Security Technology Certification Program funds that could not be expended for their intended purpose.

Audit Objectives. The audit objectives were to determine whether Environmental Security Technology Certification Program funds provided for the Arctic Military Environmental Cooperation Program were used for their intended purpose, and whether contracting functions were properly performed. In addition, the audit was originally to review the management control program as it applied to the other objectives. We did not review the management control program because the scope of the audit was limited to two contract actions and one in-house project. See Appendix A for a discussion of the audit process.

Audit Results. We could not verify that Environmental Security Technology Certification Program funds provided for the Arctic Military Environmental Cooperation Program were used for their intended purpose. The funds were not managed in the most efficient and effective manner, and contracting functions were not always properly performed. As a result, the Government has no assurance it will receive expected products and services for the \$1.2 million provided to support the Arctic Military Environmental Cooperation Program, and the plan to direct a contractor to subcontract with a specific subcontractor would have been improper if it had been implemented. See Part I for a discussion of the audit results.

Summary of Recommendations. We recommend that the Principal Assistant Deputy Under Secretary of Defense (Environmental Security) develop and implement procedures for ensuring that all transfers of funds to other organizations include sufficient guidance for the fund recipients to properly use the funds and to obtain the desired products and services. We also recommend eliminating the plan to direct the Air Force Center for Environmental Excellence to direct a contractor to subcontract with a Navy contractor.

We recommend that the Air Force Center for Environmental Excellence develop and implement controls to document contractor taskings, correspondence, and statements of work in order to increase the Government's ability to obtain desired products and services.

We recommend that the Naval Research Laboratory develop and implement procedures to prevent acceptance of a fund transfer if the funds transferred cannot be used before the funds expire.

Management Comments. The Office of Deputy Under Secretary of Defense (Environmental Security) agreed to establish procedures delineating fiscal and status reporting, responsibilities, schedules, and deliverables for each project, and to have in place review procedures and a new program manager that will track the transfer and expenditure of funds. The Environmental Security Office disagreed with the plan to direct the Air Force Center for Environmental Excellence to direct a contractor to subcontract with a Navy contractor. The Environmental Security Office stated that it was a proposal under consideration but was not a directive nor was it acted upon. The Air Force stated that it will issue a letter reminding all personnel of the appropriate procedures for issuing requests to contracting, reinforcing the delineation of duties and authority of the contracting officer and contracting officer's representative, and will implement procedures to require more detailed statements of work and taskings prior to initiating work under the contract. The Navy stated procedures are in place to determine whether funds transferred by military interdepartmental purchase request can be used before expiration and to obtain clarification if guidance is vague; however, the procedures were not followed. The Navy stated that it will reemphasize to its employees the need to follow established procedures. See Part I for a summary of management comments on the recommendations and see Part III for the complete text of management comments.

Audit Response. Although the Environmental Security Office nonconcurred with the recommendation to eliminate the plan to direct the Air Force Center for Environmental Excellence to direct a contractor to subcontract with a Navy contractor, the office met the intent of the recommendation by not implementing the plan; therefore, no additional comments are required on this issue. Management comments from the Office of Deputy Under Secretary of Defense (Environmental Security), the Air Force, and the Navy were responsive and no further comments are required.

Table of Contents

Executive Summary	i
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Part I - Audit Results

Audit Background	2
Audit Objectives	2
Management of AMEC Program Funds	3

Part II - Additional Information

Appendix A. Audit Process	12
Scope and Methodology	12
Appendix B. Report Distribution	13

Part III - Management Comments

Office of Assistant Deputy Under Secretary of Defense (Environmental Security) Comments	16
Department of the Air Force Comments	23
Department of the Navy Comments	25

Part I - Audit Results

Audit Background

Arctic Military Environmental Cooperation Program. The audit was requested by the Principal Assistant Deputy Under Secretary of Defense (Environmental Security) to determine whether funds for the Arctic Military Environmental Cooperation Program (AMEC) were used properly. The AMEC Program is a trilateral initiative between Norway, the Russian Federation, and the U.S. to refocus Russian military environmental practices, and to develop and implement a plan to clean up radioactive waste in the Arctic circle and Northwest Russia. The trilateral initiative was officially launched in September 1996 when the Secretary of Defense, along with counterparts from Norway and the Russian Federation, signed a declaration for the parties to jointly address critical environmental concerns in the Arctic.

Environmental Security Technology Certification Program (ESTCP) Funds. The FY 1995 DoD appropriation added \$18 million of two-year Research, Development, Test and Evaluation money to ESTCP to support the Department of Energy's Climate Change Fuel Cell Program. DoD transferred \$15 million of the funds to the Department of Energy to support the Fuel Cell Program. In August 1996, DoD requested the return of \$6.7 million from the Department of Energy because the funds could not be expended for this stated purpose. DoD reprogrammed the funds to support existing environmental project requirements.

Redirected Financial Support. On August 30, 1996, the Principal Assistant Deputy Under Secretary of Defense (Environmental Security) directed the Washington Headquarters Services to transfer \$3.8 million of the returned ESTCP funds to the Air Force Center for Environmental Excellence (AFCEE) and the Naval Research Laboratory. About \$1.2 million of the \$3.8 million was transferred to support seven AMEC environmental research and development projects. Five of the projects would be managed by AFCEE and the remaining two would be managed by the Naval Research Laboratory.

Audit Objectives

The audit objectives were to determine whether ESTCP funds provided for the AMEC Program were used for their intended purpose, and whether contracting functions were properly performed. In addition, the audit was to review the management control program as it applied to the other objectives. We did not review the management control program because the scope of the audit was limited to two contract actions and one in-house project. See Appendix A for a discussion of the audit process.

Management of AMEC Program Funds

DoD officials did not manage \$1.2 million of AMEC Program funds in the most efficient or effective manner. Inefficient management of funds occurred because the Office of the Principal Assistant Deputy Under Secretary of Defense (Environmental Security) did not provide sufficient guidance with the transfer of funds to the Air Force and the Navy. In addition, the Air Force and the Navy did not implement proper management controls over the expenditure of the funds transferred. As a result, the Government has no assurance it will receive expected products and services for the \$1.2 million provided to support the AMEC Program and the plan to direct a contractor to subcontract with a specific subcontractor would have been improper if it had been implemented.

Office of the Principal Assistant Deputy Under Secretary of Defense (Environmental Security) Transfer of Funds

The Office of the Principal Assistant Deputy Under Secretary of Defense (Environmental Security), hereafter called the Environmental Security Office, did not perform proper management over \$1.2 million of AMEC Program funds transferred to the Air Force and Navy. The Environmental Security Office did not specify what reports, products, and services they expected the Air Force to produce with the funds provided. The Environmental Security Office planned to direct AFCEE to direct a contractor to improperly subcontract a project for \$70,000 with a Navy contractor. The Environmental Security Office provided the Naval Research Laboratory \$150,000 in funds, that were due to expire in 7 days, to complete an in-house project. Finally, the Environmental Security Office did not identify which projects the Navy was supposed to support for the AMEC Program.

Transfer of Funds to the Air Force. The Environmental Security Office did not provide sufficient guidance when the office transferred \$1 million by Military Interdepartmental Purchase Request (MIPR) to the Air Force to support the AMEC Program. The Environmental Security Office instructed the Air Force to add the \$1 million to an existing AFCEE contract, F41624-95-D-8141, and provided the Air Force a list of proposed AMEC Program project titles. The Environmental Security Office did not provide any written guidance, other than the specific project titles, to the Air Force to state what products or reports were expected from the funds. The lack of guidance led to considerable confusion and some delay. For example, the Air Force originally only had the ability to provide status reports for contractor support by total hours and dollars spent. However, the Environmental Security Office was not satisfied with this reporting and issued a stop-work order on January 16, 1997, until an agreement with the Air Force could be worked out on the format and content of status reports. The Environmental Security Office rescinded the stop-work order on February 10, 1997, with the agreement that the Air Force would develop task assignments for each project and track costs by project as well as hours. This

Management of AMEC Program Funds

program delay could have been avoided had more detailed guidance or some type of memorandum of understanding been completed between the Environmental Security Office and the Air Force. The Environmental Security Office should develop and institute procedures for transfer of funds that delineates in a written signed agreement what is expected of all parties including: cost reporting, interim reports, and final products from the expenditure of the funds.

Planned Direction to the AFCEE Contractor. The AMEC Program office within the Environmental Security Office, planned to direct AFCEE to improperly subcontract a project for \$70,000 with a Navy contractor. The original AMEC Program plan was to fund two projects through the Naval Research Laboratory at an estimated cost of \$200,000. However, in FY 1997, as projects were further defined, an additional \$70,000 in requirements was identified for one of the two Naval Research Laboratory AMEC Program projects. The \$70,000 of funds planned to support the additional requirements were two-year FY 1995 ESTCP funds due to expire at the end of FY 1996. Because the additional requirements constituted new work, the expired funds could not be used for the Navy requirements. To rectify the funding shortfall, the AMEC Program office planned to direct the AFCEE contractor, Waste Policy Institute, to subcontract with the Naval Research Laboratory's contractor, Geo-Centers, Inc., to satisfy the additional \$70,000 AMEC Program requirement. The AMEC Program office and AFCEE should not direct the AFCEE contractor to subcontract \$70,000 with the Navy AMEC contractor. The use of expired funds in this manner is inappropriate.

Transfer of Funds to the Navy. The Environmental Security Office did not provide sufficient guidance on how the funds transferred to the Navy were to be used to support the AMEC program. The Environmental Security Office directed the Navy to use \$150,000 due to expire in 7 days to support an in-house project, Development of Monitoring Technologies, Methods, and Strategies for Hazardous Waste at Arctic Naval Facilities, Storage and Dump Sites. The Environmental Security Office directed that the remaining \$50,000 support a specific existing cost reimbursement research and development contract N00014-94-C-2056, but did not specify which program the \$50,000 would support.

AFCEE Implementation of the AMEC Program

AFCEE contract management controls were not sufficient to ensure that the funds provided properly supported the AMEC Program. Management controls were insufficient because AFCEE did not confirm verbal orders to the contractor in writing as required by the Federal Acquisition Regulation. AFCEE did not complete a written agreement that delineated the roles and responsibilities of Air Force individuals responsible for tasking or providing the contractor with technical direction. AFCEE did not refine the original broad delivery order statement of work after projects had been more clearly defined. As a result, AFCEE's ability to protect the Government's interest in contractor performance on the AMEC Program was greatly diminished.

Contractor Ordering Assignments. AFCEE did not have procedures to confirm, in writing, verbal orders made by Air Force personnel to the contractor supporting the AMEC Program. Federal Acquisition Regulation part 16.505, "Ordering," states "If appropriate, authorization for placing oral orders may be included in the contract Schedule, provided, ... that oral orders are confirmed in writing." AFCEE wrote a broad statement of work for contract F41624-95-D-8 14 1 delivery order 18 that required individual orders necessary for the contractor to perform any work. Air Force personnel verbally tasked the contractor for individual assignments under delivery order 18 without confirming the order in writing for the contract file. The contract file for the individual orders under delivery order 18 contained only the task order assignment numbers and titles without a specific detailed scope of work. By not requiring all contractor order assignments in writing, the Air Force is limited in its ability to protect the Government against misunderstandings or inaction on the part of the contractor. When all direction is provided verbally, the Air Force must rely solely on the contractor's understanding as to what is deemed as proper support. If the contractor were later to be found lacking in the level of effort or simply not performing at all, the Air Force would have no way of protecting its interest. In the case of legal action, the Air Force would not be able to produce any documentation, an agreed upon product signed by both parties, or even an internal log supporting its position concerning the contractor's level of effort. AFCEE should enact procedures requiring all contractor ordering assignments in writing, or at least confirmed in writing and maintained in the official contract file.

Air Force Communication with the Contractor. AFCEE did not complete a written agreement with the contractor detailing which Air Force officials would be responsible for officially tasking or providing technical direction to the contractor. Each Air Force project under the AMEC Program is managed by a project officer. The project officers for the AMEC projects are located at two locations, AFCEE and the Headquarters, Air Force Civil Engineer Environment office. AFCEE did not document the respective roles and responsibilities of those Air Force officials. The conditions may lead to unauthorized officials tasking the contractor, or an unauthorized employer-employee relationship with the contractor, which may lead to commitments not authorized or necessary to achieve the objectives of the AMEC Program. To help alleviate any confusion or potential for wrongdoing, AFCEE should initiate a written agreement that states only the contracting officer or the contracting officer's representative may officially task the contractor. In addition, the written agreement should stipulate those Air Force personnel responsible for providing technical direction.

Statement of Work. AFCEE did not modify the delivery order used to implement the AMEC Program after project scopes were further defined. At the start of the program, AFCEE had only broad project titles to work with. In response to a stop-work order issued by the Environmental Security Office, AFCEE established task assignment numbers for each project. Each task assignment number had its own specific subtaskings required to complete the project. The task assignment numbers were officially added to the contract file but retained the same statement of work from the original broad delivery order statement of work. When we asked the AFCEE contractor whether the

statement of work from the basic contract, delivery order, and the task assignment numbers provide sufficient guidance to allow them to proceed without direction from AFCEE, contractor personnel responded negatively. United States Code Title 41, "Public Contracts," Chapter 4, "Procurement Procedures," Subsection 253j, "Task and Delivery Order Contracts," states that the statement of work shall include provisions clearly specifying all tasks to be performed or property to be delivered. Therefore, AFCEE should include a more detailed statement of work with the task assignment numbers in order to eliminate any perceptions of an employer-employee relationship with the contractor, increase contractor performance accountability, and to allow the contractor to perform services without relying on constant direction and clarification from AFCEE.

Naval Research Laboratory Implementation of the AMEC Program

The Naval Research Laboratory did not have adequate procedures to determine whether funds could be used before expiration or for refusing funds that contain guidance too vague to implement. The Naval Research Laboratory should not have accepted either of the two MIPR fund transfers from the Environmental Security Office to support the AMEC Program.

Naval Research Laboratory In-House AMEC Project. On September 24, 1996, the Naval Research Laboratory accepted a MIPR transfer of \$150,000, which was due to expire in 7 days, to support an in-house project, Development of Monitoring Technologies, Methods, and Strategies for Hazardous Waste at Arctic Naval Facilities, Storage and Dump Sites. The funds provided to the Navy to support the in-house project were two-year FY 1995 ESTCP funds due to expire at the end of FY 1996. Funds to support in-house projects must be obligated and used before they expire. By accepting the MIPR, the Naval Research Laboratory agreed to complete the in-house project in 7 days. The Naval Research Laboratory was not able to expend all \$150,000 and could not provide a product as expected. The Naval Research Laboratory was able to spend only about \$7,200 of the \$150,000 before the end of FY 1996. As a result, the AMEC Program forfeited the use of about \$142,800. The Naval Research Laboratory should not have accepted a MIPR transfer of funds to complete a project that they could not reasonably expect to complete before the funds expired. The Naval Research Laboratory should institute procedures for reviewing all MIPRs received to determine if funds can be used before expiration.

Vague MIPR Direction. The Naval Research Laboratory accepted a \$50,000 MIPR transfer of funds from the Environmental Security Office that was too vague to implement. Along with the MIPR, the Environmental Security Office provided the Navy with a list of four environmental research and development projects to support the ESTCP and AMEC Programs. The Environmental Security Office did not stipulate which of the four environmental research and development projects listed were to support the AMEC Program. The Environmental Security Office transferred funds in late September 1996, for

two of the four projects to be performed on Navy contract N00014-94-C-2056 without distinguishing which project supported the AMEC Program. The Navy technical point of contact thought the funds for the two projects were to support the same project since both had an ESTCP funding source. The Navy technical point of contact discovered the mistake in January 1997, resulting in a project initiation delay of about 3 months. This research and development contract is a level-of-effort contract and, therefore, will produce no product or report at completion unless specified. Because the Environmental Security Office did not specify what, if any, product they required, no product will be produced by the contractor at completion of the task. The MIPR did not stipulate which project, task, or program the funds were to support. The Naval Research Laboratory should have refused the MIPR because the Environmental Security Office did not provide sufficient guidance to perform the necessary work. The Naval Research Laboratory should enact procedures for refusing all MIPRs that are received with guidance that is too vague to implement.

Conclusion

As requested by the Principal Assistant Deputy Under Secretary of Defense (Environmental Security), this audit addressed the use of \$1.2 million of DoD AMEC Program funds. The Environmental Security Office believed that sufficient guidance had been provided to the Air Force and Navy; however, the lack of initial written guidance to the Services resulted in confusion and delays. The Environmental Security Office issued a stop-work order to the Air Force because the Air Force and its contractor were not providing adequate fund expenditure information to the Environmental Security Office. The Navy did not understand which project was to be funded with the \$50,000 transferred and as a result the start of the project was delayed about 4 months. Had timely written guidance been provided to the Services, these problems might have been avoided. After the initial phases of the AMEC Program, the Environmental Security Office began preparing a draft policy that would set forth the duties and responsibilities for AMEC personnel. The draft policy has not been finalized.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Principal Assistant Deputy Under Secretary of Defense (Environmental Security):

a. Develop and implement procedures that establish a written memorandum of understanding with all entities that receive a transfer of funds. The memorandum of understanding should include responsibilities, how costs are to be reported, and what progress reports or final products are expected to result from the funds transferred.

Management Comments. The Environmental Security Office concurred and stated that procedures have been developed and are in place delineating fiscal and status reporting, responsibilities, schedules, and deliverables for each project.

b. Develop and implement review procedures for all funds transferred by military interdepartmental purchase request to determine whether the funds can be executed before expiration.

Management Comments. The Environmental Security Office concurred and stated that review procedures are in place and a new program manager will track the transfer and expenditure of funds.

c. Eliminate the plan to direct the Air Force Center for Environmental Excellence to subcontract \$70,000 with the Navy contractor, Geo-Centers, Inc.

Management Comments. The Environmental Security Office nonconcurred and stated that it was a proposal under consideration but was not a directive nor was it acted upon.

Audit Response. We agree with the Environmental Security Office that there was only a plan to direct the Air Force Center for Environmental Excellence to subcontract with the Navy contractor. Even though the Environmental Security Office nonconcurred with the recommendation, its decision not to go through with the plan to subcontract met the intent of the recommendation and no additional comments are required.

2. We recommend that the Commander, Air Force Center for Environmental Excellence, Office of Civil Engineer:

a. Develop and implement procedures to document all verbal contractor order requests in writing and to retain a copy in the official contract file.

b. Develop and implement procedures to complete a written agreement that states only the contracting officer or the contracting officer's representative may officially task the contractor. In addition, the written agreement should stipulate those Air Force personnel responsible for providing technical direction.

c. Develop more detailed statements of work with the task assignment numbers to eliminate any perceptions of a personal services contract, increase contractor performance accountability and allow the contractor to perform services without relying on direction from Air Force personnel.

Management Comments. The Air Force concurred and stated that it will reinforce appropriate procedures for issuing requests to contracting, appropriate delineation of duties for the contracting officer and contracting officer's representative, and provide guidance on writing statements of work and task assignments. In addition, the Air Force stated it will develop a written program management plan and implement processes that require more detailed statement of work or task assignment letters prior to initiating work under the contract.

3. We recommend that the Commander, Naval Research Laboratory, Office of Naval Research:

a. Develop and implement review procedures for all transfers of funds by military interdepartmental purchase request to determine whether the funds can be used before expiration.

b. Develop and implement procedures for refusing all funds transferred by military interdepartmental purchase request that contain guidance too vague to implement.

Management Comments. The Navy concurred in principle, stating procedures are in place to determine whether funds transferred by military interdepartmental purchase request can be used before expiration and to obtain clarification if guidance is vague; however, the procedures were not followed. The Navy stated that it will reemphasize to its employees the need to follow established procedures.

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Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

Work Performed. We reviewed the overall policies, procedures, and documentation related to the ESTCP funds used for AMEC projects. In addition, we reviewed the specific 1996 MIPR funding documents totaling \$1.2 million for the four FY 1997 proposed Air Force AMEC projects: "Basic Task; " "Development of Means and Methods for Cleaning up Toxic Substances at Military Bases in the Arctic Region;" "Development and Fabrication of a Unit for Reduction of Solid Radioactive and Nonradioactive Hazardous Waste Volume Using Catalytic Induction Melting;" and "Clean Ships Technology;" as well as the two Navy projects: "Development of a Vessel for the Collection and Comprehensive Treatment of Shipboard Waste;" and "Development of Monitoring Technologies, Methods and Strategies for Hazardous Waste at Arctic Naval Facilities, Storage and Dumps." We also reviewed contract documentation used to support the AMEC Program: Navy contract N00014-94-C-2056 funding modification PO003 1, awarded September 1996, and Air Force contract F41624-95-D-8141 delivery order 18, awarded September 1996.

We interviewed DoD, Navy, Air Force, and contractor personnel involved with the ESTCP funds used for the AMEC projects to determine whether ESTCP funds used for the AMEC Program were used for their intended purpose, and whether contracting functions were properly performed.

This report indicates management control weaknesses related to the transfer of funds by the Principal Assistant Deputy Under Secretary of Defense (Environmental Security) and expenditure of funds by AFCEE and the Naval Research Laboratory. However, we did not evaluate the management control program because the scope of the audit was limited to two contract actions and one in-house project.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from April through November 1997 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. The audit did not rely on computer-processed data or statistical sampling procedures.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and Geo-Centers, Inc., Newton Centre, MA, and Waste Policy Institute, Gaithersburg, MD. Further details are available upon request.

Prior Coverage. No audits on the Arctic Military Environmental Cooperation Program have been conducted.

Appendix B. Report Distribution

Office of the Secretary of Defense

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Deputy Under Secretary of Defense (Environmental Security)
Assistant Deputy Under Secretary of Defense (Environmental Security)
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
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Commander, Naval Research Laboratory
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Senate Committee on Armed Services
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House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice,
Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Office of the Deputy Under Secretary of Defense (Environmental Security) Comments



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 203013000

02 FEB 1998


MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING OFFICE OF THE INSPECTOR GENERAL DEPARTMENT OF DEFENSE

Subject: Funds Used for the Arctic Military Environmental Cooperation Program,
Project No. 7CK-5037, December 3, 1997

Thank you for the opportunity to comment on the subject IG Report

A review of your "Draft of a Proposed Audit Report", dated December 3, 1997, has been completed and has identified several issues concerning the report's content. The report **does** not accurately describe the efficient and effective operation of the AMEC program. Additionally, the report's scope is focused on only a small portion of the program, providing a flawed overall assessment. Further, the report contains inaccuracies. These issues are explained in detail in the attached document.

I request your careful review and consideration of the attached comments. Please extend my thanks to your **staff** for their time and effort spent in conducting this audit.


Sherri W. Goodman
Deputy Under Secretary of Defense
(Environmental Security)

Attachments as stated

Environmental Security



Defending Our Future

Office of the Deputy Under Secretary of Defense (Environmental Security)
Comments

R. Edson 27 Jan 98 1700

Subj: Comments on "Funds Used for the Arctic Military Environmental Cooperation Program", December 03.1997, No. 7CK-5037

I. SUMMARY:

While specific comments regarding the report are covered below, it is important to summarize the overall ODUSD(ES) position with regards to the subject audit. ODUSD(ES) has taken the lessons learned from the initiation of this **first-ever** multilateral environmental program and its operation over the past year, as well as experiences from the Cooperative Threat Reduction Program, and incorporated these lessons into the operation of the AMEC program. The audit report does not **reflect** the efficient, effective AMEC program operation. The audit report concentrates on only a small portion of the program, providing a **flawed** overall assessment, and further, contains inaccuracies.

II. GENERAL COMMENTS.

- A. This audit was initiated **at the** request of the PADUSD(ES) to review expenditure of funds and management practices, in an effort to improve on the process. In other words, ODUSD(ES) **identified** the problem and requested assistance. PADUSD(ES) is being criticized for asking for help.
- B. At the time of the audit, less than **\$200K** of the total **\$1M** sent to AFCEE and on to WPI had been spent and approximately **\$150K** had expired at **NRL**. At the same time that PADUSD(ES) requested this audit, he also directed additional controls be put in place to ensure the appropriate expenditure of funds. The draft audit report states that the "Government has no assurance it will receive expected products and services for the \$1.2 million...", yet the amount in question is only **\$350K**. This generalization is inappropriate and casts a shadow of doubt on the entire AMEC **program** management structure - which was sound at the time and continues to improve.
- C. The audit represents a snap shot of a large, complex, evolving trilateral program. The program has been nationally and internationally recognized for its importance and sound program management. The audit "snap shot" presents a distorted view which fails to recognize the sound management practices in place and casts doubts on the entire program.

Office of the Deputy Under Secretary of Defense (Environmental Security)
Comments

Final Report
Reference

R Edison 27 Jan 98 1700

- D. Significant changes continue to be effected to improve program management and expenditure and tracking of program funds.
1. A program management plan has been developed for the execution of both the National and Trilateral AMEC Program.
 2. The program management and oversight is being consolidated under one service, the Navy, with CNO (N45) acting as the executive agent.
 - a) CNO (N45) has been designated by the DEPSECDEF as the Executive Agent and Principal for AMEC.
 - b) Naval Facilities Engineering Command (NAVFAC) has been designated as the project management facility.
 - c) A shift is being made to put Navy Project Officers over all projects.

III. EXECUTIVE SUMMARY:

- A. Second Paragraph:
Total program support of \$1.2 million came from FY 1995...
This sentence should be changed to read "Total DoD program support...". Additional funds were provided by EPA and DOE.
- B. Summary of Recommendations, First Paragraph:
Do not concur with summary regarding PADUSD(ES). The funds transfer contained guidance appropriate for the initial stage of the projects and the program. Additional guidance should not have been necessary at that time and was provided in a timely manner as it became appropriate. The comment regarding the direction to AFCEE to have their contractor subcontract to the Navy contractor should be eliminated. Such direction was never given. This fact is explained in more detail below in the findings section.

IV. AUDIT BACKGROUND:

- A. Second Section on the ESTCP Funds:
The FY1995 DoD appropriation for ESTCP was approximately \$43 million, not \$18 million as stated in the audit report. The \$18 million was money added to the original ESTCP request to support the Fuel cell program.
- B. Third Section on Redirected Financial Support:
The \$3.8 million transferred to AFCEE and NRL was not all for the AMEC program support. The wording of this paragraph is ambiguous and should be clarified such that there is no confusion. Only \$1.2 million went towards AMEC support.

Revised,
page i

Revised,
page 2

R. Edson 27 Jan 98 1700

V. FINDINGS:

A. Transfer of Funds to the Air Force.

The Environmental Security office did not provide sufficient guidance when the office transferred \$1 million by Military Interdepartmental Purchase Request (MIPR) to the Air Force to support the AMEC program. The Environmental Security office instructed the Air Force to add the \$1 million to an existing AFCEE contract, F41624-95-D-8141, and provided the Air Force a list of project titles. The Environmental Security office did not provide any written guidance, other than the specific project titles, to the Air Force to state what products or reports were expected from the funds. The lack of guidance led to considerable confusion and some delay. For example, the Air Force originally only had the ability to provide status reports for contractor support by total hours and dollars spent. However, the Environmental Security office was not satisfied with this reporting and issued a Stop-Work-Order on January, 16 1997, until an agreement could be worked out on the format and content of status reports...

Do not concur.

Sufficient guidance was provided. While the initial tasking was delivered in the form of project titles, these projects were just started and the AMEC program later developed. Explicit, detailed project management plans were drafted during several unilateral US-only meetings held in October 1996 and January 1997 and further in trilateral technical experts meetings in November 1996 and February 1997. Further, the project officers and the Air Force were all part of this project definition process. These plans contain listings of specific tasks, deliverables, timelines and responsibilities. Extensive meetings (approximately 8, including several all day program reviews) were held to refine the written guidance, among both the technical experts and at higher levels with the PADUSD(ES). These meetings offered detailed verbal guidance and ample opportunity for the Air Force to request further clarification on any points of confusion. ODUSD(ES) expected normally accepted standards and procedures for program management, a role the Air Force assumed, and should have accomplished without additional specific guidance required. Even when specific guidance was provided, as in the funds transfer memo and the original MIPR, this was not acted upon by the Air Force/AFCEE in their Delivery Order for their prime contractor, Waste Policy Institute(WPI).

Office of the Deputy Under Secretary of Defense (Environmental Security)
Comments

Final Report
Reference

R. Edson 27 Jan 98 1700

B. Improper Direction to the AFCEE Contractor.

The AMEC Program office within the Environmental Security office, planned to improperly direct AFCEE to subcontract a project for \$70,000 with a Navy contractor...

Do not concur.

The title for this section is misleading and the content of the section false. No direction was ever given to AFCEE to direct WPI to subcontract to a Navy contractor as is suggested by the title. The appropriateness and **legality** of such a subcontract were being investigated at the program manager level to determine whether or not it was worth the time to have such an action more rigorously reviewed. No determination had been made as to either the legality or appropriateness of such a subcontract, and certainly no order had been issued to AFCEE to pursue such an action. Since the initial discussion on this issue, it has been determined that WPI can accomplish all necessary work to cover the funding level change and that no subcontract, to anyone, is necessary. This determination was made based on sound management practices, long before the audit findings were released.

Program officers are not legal or contracts experts. That is the function of general counsels and contracting officers. Even if such a direction as noted in the report were given, it still would have been reviewed by the experts. If the action were still carried out **after** the review, it would not result in condemnation of the **ODUSD(ES)** program manager, but rather the general counsel and the contracting officer for not advising the program manager about the inappropriateness of the action. Contracting is a series of checks and balances. No program manager has the power to force another government agency (e.g., AFCEE) to do something improper or inappropriate.

This whole section and recommendation should be removed from the report.

C. Transfer of Funds to the Navy.

The Environmental Security office did not provide sufficient guidance on how the funds transferred to the Navy were to be used to support the AMEC Program. The Environmental Security office directed the Navy use \$150,00 due to expire in seven days to support an in-house project,

4

Revised, see
page 4

R. Edson 27Jan98 1700

Development of Monitoring Technologies, Methods, and Strategies for Hazardous Waste at Arctic Military Facilities, Storage and Dump Sites. The Environmental Security office directed that the remaining \$50,000 support a specific existing cost reimbursement research and development contract N00014-94-C-2056, but did not specify which program the \$50,000 would support.

Do not concur.

Sufficient guidance was delivered. While the initial tasking was delivered in the form of project titles, these projects had just been initiated and explicit, detailed project management plans were developed. Explicit, detailed project management plans were drafted during several US-only meetings held in October 1996 and January 1997 and further in trilateral technical experts meetings in November 1996 and February 1997. Further, the project officers were all part of this project definition process. These plans contain listings of specific tasks, deliverables, timelines and responsibilities. Extensive meetings were held to refine the written guidance, among both the technical experts and at higher levels with the PADUSD(ES). These meetings offered in depth verbal guidance and ample opportunity for the Navy to request further clarification on any points of confusion. Further, the Navy Research Laboratory provided assurances that they would be able to obligate the funds prior to their expiration. In their response, the Navy acknowledges their responsibility for this action.

VI. RECOMENDATIONS:

- A. *Develop and implement procedures that establish a written memorandum of understanding with all entities that receive a transfer of funds. The memorandum of understanding should include responsibilities, how costs are to be reported, and what progress reports or final products are expected to result from the funds transferred.*

Concur with comments.

This has always been the goal of the AMEC program, and the following actions supports this.

1. The AMEC program management team developed project plans denoting schedules and deliverables for each project.
2. The AMEC program management team formalized monthly fiscal reporting procedures.

Office of the Deputy Under Secretary of Defense (Environmental Security)
Comments

Final Report
Reference

R. Edson 27Jan98 1700

3. The AMEC program management team developed expenditure plans and forwarded them to the Air Force as guidance for executing the program.
4. The AMEC program management team developed detailed job descriptions to clearly delineate responsibilities among the program participants.

These actions were in progress at the end of 1996, prior to the initiation of the audit.

- B. *Develop and implement review procedures for all finds transferred by military interdepartmental purchase request to determine whether the funds can be executed before expiration.*

Concur with comments.

Such review procedures are already in place through the development of the project timelines and a formal program management plan. Additionally, there is now in place a professional program manager whose role includes the tracking of funds expenditure and transfer.

- c. *Eliminate the plan to direct the Air Force Center for Environmental Excellence to subcontract \$70,000 with the Navy contractor, Geo-Centers, Inc.*

Do not concur.

As noted under the findings sections, this was a proposal under consideration, which was never acted upon, not a directive. This recommendation should be deleted.

See page 8

Department of the Air Force Comments



Office of the Assistant Secretary

DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

2 February 1998

**MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING OFFICE OF
THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE**

FROM: Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations, and Environment)

SUBJECT: DoDIG Draft Report, Funds **used** for Arctic Military Environmental Cooperation Program (Project No. 7CK-5037)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on **subject** report.

Three recommendations with appropriate management comments are as follows:

Recommendation 2.a: The Commander, Air Force Center for Environmental Excellence develop and implement procedures to document **all** verbal contractor order requests in writing and to retain a copy in the official contract file.

Management Comments for Recommendation 2.a. Concur: Any verbal orders made by Air Force personnel to the contractor shall be confirmed in writing and a copy shall be retained in the official contract file. The Air Force Center for Environmental Excellence (AFCEE) procedures authorize only written task orders/delivery orders, **TOs/DOs**, under the AFCEE contracts. The Commander, AFCEE will issue a letter reminding all personnel of the appropriate procedures for issuing requests to contracting. Estimated Completion Date: 27 Feb 98.

Recommendation 2.b: The Commander, Air Force Center for Environmental Excellence develop and implement procedures to complete a written agreement that states only the contracting **officer** or the contracting officer's representative may officially task the contractor. In addition, the **written** agreement should stipulate those Air Force Personnel responsible for providing technical direction.

Management Comments for Recommendation 2.b. Concur: Guidance delineating the authority of the contracting Officer and **Contracting** Officer's Representative (COR) is addressed in general terms, in the FAR. There is a standard Appointment of Contracting Officer's Representative letter issued by the Contracting Officer to the COR for all **TOs/DOs** issued by the Air Force **Center** for Environmental **Excellence**(AFCEE). This letter designates the COR and specifies the duties and responsibilities of the COR. The letter authorizes the COR to act as the technical point of contact for the effort. The Commander, AFCEE will issue a letter to **all** AFCEE personnel reinforcing the importance of appropriate adherence to these procedures. Estimated Completion Date: 27 Feb 98.

Department of the Air Force Comments


2

Recommendation 2.c: The Commander, Air Force Center for Environmental Excellence develop more detailed statements of work with the task assignment numbers to eliminate any perceptions of a personal services contract, increase contractor performance accountability and to allow the contractor to perform services without relying on direction from Air Force personnel.

Management Comments for Recommendation 2.c. Concur: Procedures are in place that give guidance on writing statements of work and task assignments. This guidance is found in the Air Force Center for Environmental Excellence (AFCEE) Environmental Restoration Contracting Procedures Manual, the Team Chiefs Project Management Manual, and the COR training program. To reinforce this guidance, AFCEE will develop a written program management plan. Instead of the CORs and other personnel placing what appear to be verbal taskings, contracting will process written task assignment letters as the projects become more defined. AFCEE will detail the procedures for processing task assignment letters in the new plan. AFCEE will have a draft program management plan by February 1998. AFCEE will implement processes that require more detailed SOW/task assignment letters prior to initiating work under the contract. Additionally, AFCEE will add emphasis on the appearance of personal services during our monthly COR training sessions. Estimated Completion Date: 27 Feb 98.

The management comments claim no dollar savings.

The SAF/MI point of contact is Col Rick Drawbaugh, 697-0997, room 5C866, FAX 614-2884.


PHILLIP P. OPSCHULTE
Acting Assistant Secretary
(Manpower, Reserve Affairs,
Installations & Environment)

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20330-1000

05 FEB 1998

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

Subj: DRAFT AUDIT REPORT ON FUNDS USED FOR THE ARCTIC MILITARY
ENVIRONMENTAL COOPERATION PROGRAM (PROJECT NO. 7CK-5037)

Ref: (a) DODIG Draft Audit Report of 3 Dec 97

Encl: (1) Department of the Navy Response to DODIG Draft Audit
Report of 3 Dec 97

The Department of the Navy (DON) has reviewed the subject draft audit report, forwarded by reference (a), and assessed the findings and recommendations contained therein.

Detailed comments are provided in enclosure (1). The DON agrees that the Naval Research Laboratory (NRL) did not handle the two transfers of funds by military interdepartmental purchase request (MIPR) appropriately. The draft report recommends that NRL develop and implement procedures for transfers of funds by MIPR. NRL already has established procedures to determine whether funds can be used before expiration, as well as procedures to follow when clear guidance is not received on MIPR fund transfers. These procedures are contained in NRL Instruction 7000.1A, Financial Management Policies and Procedures Manual, dated 16 March 1995. In the case of these two MIPRs, these procedures were not followed.

Appropriate action will be taken to reemphasize the need to follow established procedures. Point of contact on this subject is Larry Braverman, FMO-311, who can be reached at 202 685-6745.


GLADYS J. COMMONS
Principal Deputy
Assistant Secretary of the Navy
(Financial Management and Comptroller)

copy to:
ASN(RDA)
NAVINGEN(02)
CNR (CNR OOMR)
CO, NRL

Department of the Navy Comments

Department of the Navy Response

to

AIG(A) Draft Report of December 3, 1997

on

Funds Used for the Arctic Military Environmental
Cooperation Program (Project No. 7CK-5037)

PART 1 - AUDIT RESULTS

Page 7, Naval Research Laboratory Implementation Of the AMEC Program

"The Naval Research Laboratory did not have adequate procedures to determine whether funds can be used before expiration or for refusing funds that contain guidance too vague to implement."

DOD Response: The Naval Research Laboratory currently has procedures to determine whether funds can be used before expiration, as well as procedures to follow when clear guidance is not received on military interdepartmental purchase request (MIPR) fund transfers. However, the procedures were not appropriately followed.

Page 7, Naval Research Laboratory Implementation of the AMEC Program

"The Naval Research Laboratory should not have accepted either of the two MIPR fund transfers from the Environmental Security Office to support the AMEC Program."

DOD Response: The Naval Research Laboratory should not have accepted the MIPR for 5150,000 to complete a project in 7 days. The project could not be completed prior to the funds expiration date. It was appropriate, however, for the Naval Research Laboratory to accept the MIPR for 550,000. The Naval Research Laboratory program manager should have obtained clarification from the customer (Environmental Security Office) as to which of the four environmental research and development projects to support.

Page 6

Page 2, Vague MIPR Direction

"The Naval Research Laboratory accepted a \$50,000 MIPR transfer of funds from the Environmental Security office that was too vague to implement....The MIPR did not stipulate which project, task, or program the funds were to support. The Naval Research Laboratory should have refused the MIPR because the Environmental Security office did not provide sufficient guidance to perform the necessary work."

DCN Response: The MIPR did not contain sufficient guidance to perform the necessary work. The Naval Research Laboratory program manager should have obtained clarification from the customer as to which of the four environmental research and development projects to support before accepting the MIPR.

Recommendations for Corrective Action:

"3. We recommend that the Commander (Commanding Officer), Naval Research Laboratory, Office of Naval Research:

a. Develop and implement review procedures for all transfer of funds by military interdepartmental purchase request to determine whether the funds can be used before expiration."

DCN Response: Concur in principle. While the Naval Research Laboratory already has procedures in place to determine whether funds transferred by MIPR can be used before expiration, the procedures were not followed. The Naval Research Laboratory will reemphasize with its employees the need to follow established procedures.

"b. Develop and implement procedures for refusing all funds transferred by military interdepartmental purchase request that contain guidance too vague to implement."

DCN Response: Concur in principle. It would not be conducive for the Naval Research Laboratory to refuse all funds transferred by MIPR that contain vague guidance. However, if the guidance provided is not sufficient, the Naval Research Laboratory program manager should obtain clarification from the customer. The Naval Research Laboratory has procedures in place to handle such an occurrence; in this instance, the procedures were not followed by responsible personnel. Naval Research Laboratory management will reemphasize the need to follow established procedures.

Audit Team Members

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

Paul J. Granetto
Joseph P. Doyle
Deborah L. Culp
Michael J. Tully
Mark A. Pricco
Gregory P. Guest
Michael J. Guagliano